

TRANSCRIPT

Fourth of July fireworks sales promise to be no dud

Podcast interview with Jerry Bostocky, Vice President of Sales for Phantom Fireworks; and Janelle Kozyra, member of Kimco Realty's blogging team

Janelle: Greetings everyone. I am Janelle Kozyra, a member of Kimco Realty's blogging team. Today I have with me Jerry Bostocky, who is the Vice President of Sales for Phantom Fireworks. Phantom is gearing up for one of its biggest holidays of the year, of course, the Fourth of July, which is just about a few days away. So Jerry it's great to have you with us, and I'm sure things are super busy over there at Phantom right now.

Jerry: It's great to be with you guys. Kimco's a great partner with us throughout the country, and we're very pleased to be able to be with you today, too. And yes, indeed, we've got nine days left 'til the Fourth of July and things are cooking pretty good here right now.

Janelle: So give us a little bit of a background then on Phantom and everything that you provide.

Jerry: Sure. Let me give you a little history of the company, first. Phantom can trace its roots back to the mid '70s, when our CEO and owner Bruce Zoldan was a salesperson for a rack merchandise company and servicing grocery chains and convenience stores. He was asked by some of his customers to see if they could get some sparklers.

And through a friend of his in Dayton, Ohio, he drove his car over there and filled his trunk up with some sparklers and came back and sold them to these rack jobbers and to these grocery chains. And one trunk load turned into two trunk loads, and the story from there is a real American story on how this country offers opportunity.

And it turned into the B.J. Alan Company/Phantom Fireworks, which today is one of the largest retailers of consumer fireworks in the United States, with over 68 retail permanent showrooms throughout the United States and well over 1,200 temporary either tent stands or what we call inline facilities. We're a family-owned company, as I said before, and we enjoy a great reputation throughout the nation as the leader in fireworks with the Phantom brand.

Janelle: So you have, as you mentioned, some retail stores that are open year-round and you also have tents and stands, and then you also sell through several national retailers. So you kind of have a three-pronged approach it sounds like to sales. Can you tell us the thinking behind that strategy?

Jerry: Yes. Initially, we started off as a wholesale company and we started to actually do mail order fireworks. Unfortunately, throughout the years, that has become a restrictive opportunity where we're really not permitted to send fireworks just anywhere.

So Bruce in his infinite wisdom had made a change and we started to produce a catalog. We opened our first retail store right here in the Youngstown, Ohio, area, and instead of sending things to the customers, we had a destination point at our store, where the catalog drew people to come to our facility.

And through one store, we now have 68 retail stores, and these are on our website, which is Fireworks.com, and it is really a phenomenal website. People can go there and click on our store locations, and we have them spread out throughout the country. But they are state-of-the-art retail stores that fit and blend into the environments that Kimco's in and plaza areas, and standalone structures, other primarily standalone buildings.

They range in size anywhere from 10,000 square feet to 20,000 square feet, depending on the locale. And they are on the motif of almost like a Planet-Hollywood-type store. They are a fireworks supermarket, and that has really proven to be a very successful opportunity for our company and has developed us into the leading retailer.

We also service a great majority of the nonprofit organizations in various parts of the country. Fireworks can only be sold if you're a nonprofit. As a great example, the State of California only permits a legitimate 501(c)3 nonprofit organization to sell fireworks.

And in the state, fireworks have turned into one of the leading money-raising products for the nonprofit organizations throughout the state, whether it be a church organization, a little league team, a PTA. Just about every nonprofit out there during this season runs a fireworks stand for their big benefit.

And again, that's the California area. There are several other states that follow the same tack. There are also many states today—when we started this business, there were only a few states that actually allowed the sale of consumer fireworks. Today over 46 states have laws allowing the sale of consumer fireworks in one format or another. The trend has gone to more and more and more states are opening up for the ability to sell consumer fireworks.

The logical reason behind that is because fireworks have become safer than they ever were in the history of our country. They're very strictly regulated. The opportunity to have a product out there that is being able to be enjoyed without causing serious problems has become very prevalent and the legitimate companies like Phantom Fireworks have taken the lead there.

Safety has always been our #1 concern, and with that theory in mind, we've developed, as well as other companies throughout the United States, an opportunity to provide the American public with fireworks to celebrate our nation's birthday. It's proven to be very successful.

And again, in the third part of our division, which is our wholesale division and big box store division, we service many of the major retailers, food chains, and so forth. They put a program in their facilities for the month of June and July. Some start a little bit earlier. And fundamentally, I don't think there's a store you can walk into in America that isn't selling some sort of a firework item during this great holiday.

Janelle: And which fireworks do you think will be your best seller for this year's Fourth?

Jerry: Well, the country is really broken up into each state, and county, and even into the city levels, have their own rules and regulations. Starting with California as an example, only ground-based consumer fireworks are allowed. Essentially what that is, it's either a, they call them ground-based sparklers. Just something with a tube and a base on it, that emits a shower of sparks, but doesn't go very high, no more than 10, 12 feet in the air. And it's fundamentally, like I said, a ground-based item.

Now there are other states that allow the sale of aerial devices, like Utah and Wisconsin and Michigan. And there's Florida. There are just so many other states now that have opened up for what we call the full line of consumer fireworks.

And in those states, obviously the type of fireworks is a little more powerful, a little more exciting, and offers that great appeal of almost being like a professional show but still falling under the restrictive guidelines of the Consumer Product Safety Commission, which really truly regulates the consumer fireworks industry.

But when you ask which are the most popular products, if you're in a state like California, we developed our ground-based items to be as spectacular as we can. Fundamental to that item are as many effects as we can provide, a length of time that makes it a nice fountain. It burns from two to three minutes. It has great colors. It has crackling effects through it.

And the buying public in California is very knowledgeable about those and they have the ability to have a nice show. It may not shoot 150 feet in the air, but it does give them the Fourth of July adrenaline rush that we all want to get when we're out there doing our fireworks shows.

States like Michigan, which just recently opened up, do allow aerial devices, and the most popular aerial devices we have, and it's really developed over the last several years, is what we call our 500 Gram Aerial Repeaters. 500 gram just designates the maximum pyrotechnic composition you're allowed in a consumer item. It's about as close to a professional item that you can get without giving an overloaded product out there.

They are what we call "cake" items and they shoot items in multiple effects in the air with great colors and great effects and they're truly amazing. They have new ones out now that we call our Z-cakes, or Phancakes, which actually go back and forth in a wave motion.

People come into our showrooms and our temporary facilities, and they really have it all planned out. They go to our website at Fireworks.com, and they can actually light each and every item we have. We literally have thousands of items on our site, and they can see how long it burns, they can see the effects that it has, and they've turned themselves into real pyromaniacs, if you will, when they sit back and they'll plan what they want to buy and they might buy for their entire neighborhood.

And they'll come into our showrooms, and it's not unusual for someone to spend several thousand dollars for fireworks shows for the Fourth of July with consumer fireworks. And our organization has trained pyro specialists in every one of our facilities that assists our buyers and it's just great fun. And it's amazing. If you were at any of our facilities during the 1st, 2nd, 3rd, 4th of July, there are literally hundreds of people standing in line, waiting to buy their fireworks.

In our business we have found people buying much earlier because they're on their way to a vacation site. So they may come in as early as May and do their fireworks purchases, and then when they go on their vacations and everything, they just sort of have it all ready to go from that perspective.

Janelle: When do you think sales really peak for the Fourth of July fireworks?

Jerry: Well, no matter how hard we try to sell them—we're open year-round in most of our 68 retail stores. Now in many states like California, there are selling periods, where they start sales on the 28th of June and they end at midnight on the Fourth of July. That's a very restrictive time frame.

But in states that are open in many of our stores, most of every one of our stores are in states that allow the sale year-round, people start to buy in late May. But truly, as you know, the Fourth of July this year is going to be coming on a Thursday. Now that's fundamentally one of the best times, because most people will be off on Friday and have the long weekend. So a Thursday, Friday, Saturday, Sunday after the Fourth type of thing, we'll probably see a lot of fireworks being shot off on the 5th and 6th of July.

And people will come in if the stores are in areas that are in close proximity to them on the 2nd, 3rd, 4th, just massive days of retail sales. It's just, I would say the bulk of our business takes place within the last 10 days prior to the Fourth of July. It's truly unbelievable to see the amount of Americans that just love fireworks and are there doing their purchases.

Janelle: So would you say that the Fourth of July is the biggest holiday of the year for you, because I know that New Year's is another big one for fireworks, so—

Jerry: It is, it is. But interestingly enough, the Fourth of July in the mainland of the United States, obviously is the most significant selling period for our stores. Now in areas, like, for example, Puerto Rico and Hawaii and some of the other countries in South America, the Fourth is not celebrated in the same way as we do it here.

The New Year's and Christmas holiday seems to be the larger event, and our sales obviously are very significant in those time frames for that period of time. Hawaii, which has a very large Asian population, has a very significant holiday during the New Year's and Christmas holiday, and there are even special items that these folks will buy from a religious point of view. All red firecrackers have a very religious significance to the Asian population and they're a very, very big selling item in the State of Hawaii, for example.

But for the most part, if I looked at it as an overall picture, if we sold a dollar during the Fourth, we'll sell 30 cents during the New Year's and Christmas holiday in the states. But there is still a vast amount in Florida and in the southern states, obviously, where for Christmas and New Year's there's a larger sales period. In the northern states, where the weather doesn't seem to want to cooperate with people wanting to go outside and shoot fireworks off, it's much less.

Janelle: How do you think customer demand has changed over the years for fireworks?

Jerry: Well, because of the states allowing the sale, we are now able to provide safety PSAs where people are becoming more knowledgeable, so the buyer's becoming a lot smarter and a lot more tuned into using fireworks in a safer manner. That's why statistically speaking, if you go back to 1994, there was about 117 million pounds of pyrotechnics brought into the country for sale. In 2011, it was well over 234 million pounds. So more than double the amount of pyrotechnics sold in that timeframe.

But the significance of this number is the injury rates have come down dramatically. The reason for that is, as I said before, the consumers are becoming more educated, because the legitimate fireworks industry is allowed to provide good safety information. The Consumer Product Safety Commission,

which is the federal agency that regulates consumer fireworks, has really, really put tough regulations in place, not only for us, but for the toy industry and everything else.

Consumer fireworks are extremely regulated. And they must pass very, very stringent guidelines for the U.S. market to be sold in the United States. For example, our company, along with the other legitimate companies in the United States, has a testing agency, because the new law, passed in 2008 and effective in 2010, says that all products, all consumer fireworks products have to be third-party tested before they can be approved for sale in the United States.

What that has done is made the safety factor so significant that these products have become much safer and injuries have gone way down. So as I said before, we relish the regulations because legitimate companies thrive on regulations. It allows us to be able to continue and grow our business. If there were massive injuries, and all kind of negative things happening, we obviously would not be able to stay in business. We would not be able to provide insurance and so forth. So we have really turned around.

In fact, an interesting sidelight to the testing is that when the Consumer Product Safety Commission was talking to the toy industry, they actually told the toy industry to look to the fireworks industry for what we did 20 years ago to institute safety testing and product testing at the factory level.

Today we have well over a 95 percent pass factor for all of our fireworks coming into the country because they do meet the regulations that are required. So just good, smart, logical thinking on the part of the industry to make sure that we are providing products that don't cause problems, and the industry has grown significantly because of that.

Janelle: So from your perspective as a retailer, Jerry, do you think that there are any new laws that should be implemented or anything that should change in order to better support your business while also maintaining consumer safety?

Jerry: Well, let me give you two approaches to that question. It's a very good question and the laws, as I said, as strict as they are, there are always things that we feel as industry can be tightened to make us a more successful industry.

Many states don't have an age limit. We believe in our company and we provide a policy that we do not sell to anyone under the age of 18. Many states do not even have a minimum age requirement, which we feel is very, very significant and needs to be change. That's on a statewide level.

The implementation of how fireworks can be made, and I'll give you an example. Firecracker. Everybody's heard the word "firecracker," and what you think of is a loud, massive bang and something that could really create some real havoc if you hold it in your hand or something to that effect.

Well a legal consumer firework today contains no more than 50 milligrams of pyrotechnic composition. Now let me give you an example of what 50 milligrams is. If you took a salt shaker and you gave one sprinkle in your hand of salt, that's about 50 milligrams.

Unfortunately, in the old days, we were all used to hearing about what we called M80s and M1000s, which are really quarter sticks of dynamite, which are federally illegal. And they contain, if you took a salt shaker and filled it up three times, it has that much more pyrotechnic composition in it. It could

cause real problems. So a consumer firecracker literally only has 50 milligrams. And that's why the safety factors become so significant that the injuries with these types of things are almost nonexistent.

On the other hand, other laws that are in place, not just for the product itself, but for the venues that sell the product. As Kimco leases out properties to us, for example, there are a lot of safety factors that go into place. When we build a store, we have to comply with the National Fire Protection Association's 1124.

And it provides very stringent guidelines for how consumer fireworks can be sold. Sprinkler systems with a high deluge system in it. Wide aisles. Products can only be stacked so high. Fuses have to be covered. All staff has to be trained on handling hazardous material. Exit doors have to be occupancy rate. There has to be so many exit doors. And the theory is not in the fact that the store will blow up. But God forbid, if there's a fire, our whole purpose is life safety, and that's to get people to leave the store and let the rest take care of itself.

So laws have been implemented. They are very effective. The only thing we as an industry would ever say is that penalties for violating the laws on a federal level are very significant. It's criminal to violate the testing code. If you bring product into the United States that is not third-party tested, the penalties are extremely significant and criminal in nature. So that's a good thing, because there people in every industry, unfortunately, that try to circumvent it, and those people should not be allowed to be in the business.

The other side of the coin is insurance, dealing with the big box stores and dealing with folks like yourself, we indemnify you when we rent properties from you. We have significant amounts of liability coverage. Our insurance companies would not provide that to us at a reasonable rate if we were having kind of these crazy situations.

So all that has gotten to the point where the industry is, as I said, very professional and run very successfully by professional people. And the bad guys have bear the brunt of paying the fines and paying the fees and being the criminal if they violate that.

Janelle: Great. Really insightful. My last question for you, Jerry, is a fun one. What do you think is the most spectacular fireworks display that you've seen or maybe that you've heard a customer of Phantom put on?

Jerry: Well, I tell you, if you talk to a multitude of my peers in the business and you ask them what's the most spectacular display, most of us are working 'til midnight on the Fourth of July so we never get to see fireworks displays unfortunately until the weekend after. But we rate a lot of our spectacular displays. We actually have, in every one of our retail stores, we post the customers, the largest purchase of the day type thing. They're standing there and they're as proud as they can be with five or \$6,000 firework displays, packing it into their vehicles as they head out to enjoy the Fourth of July.

But the consumer products today, the aerial devices that are provided, these new 500-gram cakes. They're just unbelievable. The colors and the sounds and the various multiple effects. It's really great to see our customers. They spend time and they really know what these items do and they put together shows as well as any professional in most cases.

I'm always reminded of an old story about when you go to a baseball game, you got that itch to really want to get in there and swing the bat yourself. And when you go to a fireworks show, you always, jeez, I'd like to do that, too. So the legitimate fireworks industry, the legitimate consumer fireworks industry does provide that venue.

But the key, and I do want to stress this is fundamental to us, is pre-planning. A responsible adult needs to be in charge. Children should not be allowed to play with fireworks, or hold even the sparkler. To a young person, this is not something that we recommend. That's just not using common sense. And I always use that word—common sense—to tell people when we pass out safety flyers.

If you plan this out, you make sure you shoot your fireworks at a safe distance from your homes. After you're done shooting your fireworks, you want to douse them in water and put them in an area away from houses because things can rekindle.

I am a board member on the National Council on Fireworks Safety, and we do a multitude of news broadcasts over the Fourth of July. Our website is always posting messages of safety. We attend a lot of firefighter conventions to allow the firefighters to see what the industry is doing to try to provide safety messages.

And the consumer products that we bring in are all tested. We belong to an agency called the American Fireworks Standards Lab. Every one of our products has their label on it. It's like an underwriters lab approval. The buying public is used to seeing these things, so they understand someone that opens their trunk and says, "I've got a brown bag of fireworks for you," you stay away from that because it's not a tested or approved item.

Because of that effort, the Fourth of July has turned into a terrifically great holiday. People enjoy it. Injury rates are way down and we've enjoyed the ability to grow our business. As I said with 68 retail stores, there's no one that has that amount of stores throughout the United States. It's just proven to be the way to do business, so it's worked very well for us as well as other key people in the industry.

Janelle: Well, Jerry, we wish you a very happy and safe Fourth of July. And all of our listeners out there as well, very happy and safe Fourth of July. Jerry, thanks so much for taking some time out with us today.

Jerry: It's been a pleasure and I appreciate your time. Thank you so much, and happy Fourth to everybody.

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